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October 12, 2011

VIA FEDERAL EXPRESS

David A. Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, DC 20581

Re: Rule Filing SR-OCC-2011-15 -- Rule Certification

Dear Secretary Stawick:

Enclosed is a copy of the above-referenced rule filing, which The Options Clearing Corporation ("OCC") is submitting pursuant to the self-certification procedures of Commodity Futures Trading Commission ("CFTC") Regulation 40.6. The date of implementation of the rule is the later of 10 business days following receipt by the CFTC, the date the proposed rule is approved by the Securities and Exchange Commission ("SEC") or otherwise becomes effective under the Securities Exchange Act of 1934 ("Exchange Act"). This rule filing has been, or is concurrently being, submitted to the SEC under the Exchange Act. The text of the rule is set forth at Item 1 of the enclosed filing.

In conformity with the requirements of Regulation 40.6(a)(7), OCC states the following:

Explanation and Analysis

The operation, purpose and effect of the proposed rule change is to amend OCC's by-laws and rules to clarify OCC's authority to use, and the manner in which OCC may use, a defaulting clearing member's margin deposits and contributions to the clearing fund and all other clearing members' clearing fund contributions¹ to obtain temporary liquidity for purposes of meeting liquidity needs arising from Default Obligations.

¹ Margin deposits secure only the depositing clearing member's own obligations to OCC whereas clearing fund deposits of all clearing members may be applied by OCC not only to losses arising from the depositing clearing member's default, but also to losses resulting from defaults by other clearing members and specified other third parties such as settlement banks and other clearing organizations. See generally Article VIII, Sections 1 and 5 of OCC's by-laws and Rule 604 of OCC's rules.

THE FOUNDATION FOR SECURE MARKETS

An essential element of OCC's risk management regime is sound management of liquidity risk. OCC regularly examines its liquidity risk exposure to determine the optimal amount and form of available liquidity. OCC's largest potential liquidity needs are projected to occur in the case of a clearing member's default where OCC would be obligated to settle the defaulting clearing member's payment obligations with respect to option premiums, settlement of cash-settled option exercises, and mark-to-market payments. These are obligations that OCC must fund on time and potentially with only a few hours of advance notice – from notice of default until the payments are due.

One of the resources that OCC may use to meet its liquidity needs is its existing committed credit facility. The amount of funds available to OCC under the committed credit facility is limited not only by the overall size of the facility, but also by the amount of assets that OCC can pledge as collateral to lenders supporting the facility. OCC believes that, in addition to the authority it already has to pledge clearing fund assets to secure a loan to cover Default Obligations, it should also have the express power to pledge a suspended clearing member's margin deposits to secure loans for the purpose of meeting obligations arising out of the default and suspension of that clearing member or any action taken by OCC in connection therewith. OCC clearly has authority to pledge a suspended clearing member's clearing fund deposits for that purpose under Article VIII, Section 5(e) of the by-laws. However, it is not as clear that OCC has authority to pledge a suspended clearing member's margin deposits.

Rule 1104(a) provides, among other things, that upon the suspension of a clearing member, OCC shall promptly "convert to cash," in the most orderly manner practicable, all of the clearing member's margin deposits. Although this mandate might be construed to include the authority to pledge margin assets as collateral for borrowings under the committed credit facility, the phrase "convert to cash" has generally been used in the by-laws as synonymous with "liquidate" to refer to a final disposition of an asset. And even if OCC does have implied authority to pledge margin assets, that may not be transparent to all clearing members because it is not expressly stated in the rule. In order to eliminate any ambiguity, OCC proposes to (i) amend Rule 1104 and Rule 1106 to replace the phrases "convert to cash," "conversion to cash" and "converted to cash" with the words "liquidate," "liquidation" and "liquidated," respectively; and (ii) amend Rule 1104(b) to expressly give OCC the power to pledge a suspended clearing member's margin deposits as security for loans if designated executive officers of OCC determine that immediate liquidation of such assets for cash under then-existing circumstances would not be in the best interests of OCC, other clearing members, or the general public.

While OCC's \$2 billion committed credit facility should normally be more than sufficient to meet OCC's liquidity needs, it is nevertheless possible that OCC could encounter a liquidity demand that exceeds the size of that facility. Moreover, it could be difficult to maintain the size of the facility under unfavorable market conditions (*i.e.*, if the credit markets tighten significantly). In addition, future regulatory requirements for clearinghouses could impose liquidity requirements that would be difficult to meet with a committed credit facility alone. In order to be better prepared to deal with such

situations, OCC believes that it is necessary to actively explore a variety of means for raising and maintaining liquidity resources, including participation in securities lending or tri-party repo markets. Therefore, OCC proposes to amend both Article VIII, Section 5(e) of the by-laws and Rule 1104(b) to clarify that OCC's authority to use a suspended clearing member's margin and clearing fund deposits and other clearing members' clearing fund deposits to obtain temporary liquidity for purposes of meeting Default Obligations is not limited to pledging such assets under the committed credit facility. Rather, OCC would have express authority to use such assets to obtain liquidity through any reasonable means as determined by designated executive officers of OCC in their discretion.

The addition of the language "or otherwise obtain" in Article VIII, Section 5(e) of the by-laws reflects that certain transactions by which OCC may obtain liquidity could be characterized as something other than a transaction in which funds are "borrowed." For example, in a Master Repurchase Agreement, the Agreement states that the parties' intent is for the transactions to be "sales" and "purchases," but also contains provisions if such transactions are deemed to be loans. Accordingly, the use of "or otherwise obtain" in the phrase "borrow or otherwise obtain" addresses the possibility that the transaction by which OCC obtains funds may not be deemed to be a "borrowing" and forestalls technical arguments that it would be necessary for the transaction to be a "loan" in order for OCC to borrow funds.

Opposing Views

OCC hereby incorporates by reference Item 5 of the enclosed rule filing, which sets forth a description of any written comments on the rule filing, including any such comments expressing opposing views that were not incorporated into the proposed rule.

Notice of Pending Rule Certification

OCC hereby certifies that notice of this rule filing has been given to Clearing Members of OCC in compliance with Regulation 40.6(a)(2) by posting a copy of the submission on OCC's website concurrently with the filing of this submission.

Certification

OCC hereby certifies that the rule set forth at Item 1 of the enclosed filing complies with the Commodity Exchange Act and the Commission's regulations thereunder.

David A. Stawick
October 12, 2011
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Should you have any questions regarding this matter, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Stephen Szarmack".

Stephen Szarmack

Enclosure

cc: CFTC Central Region (w/ enclosure)
525 West Monroe Street, Suite 1100
Chicago, IL 60661

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 19b-4

Proposed Rule Change
by

THE OPTIONS CLEARING CORPORATION

Pursuant to Rule 19b-4 under the
Securities Exchange Act of 1934

Item 1. Text of the Proposed Rule Change

The Options Clearing Corporation (“OCC” or the “Corporation”) proposes to amend its by-laws and rules as set forth below to clarify OCC’s authority to use, and the manner in which OCC may use, margin and clearing fund deposits to obtain temporary liquidity for purposes of meeting obligations arising out of (i) the default or suspension of a clearing member or any action taken by OCC in connection therewith or (ii) the failure of any bank or any clearing organization to perform any obligation owed to OCC. Such obligations are collectively referred to as “Default Obligations.” Material proposed to be added to OCC’s by-laws and rules as currently in effect is underlined and material proposed to be deleted is enclosed in bold brackets. Double underlining and double bold brackets indicate material proposed to be added or deleted in a separate pending rule filing.¹

THE OPTIONS CLEARING CORPORATION

BY-LAWS

* * *

ARTICLE VIII

CLEARING FUND

* * *

Application of Clearing Fund

SECTION 5. (a) – (d) [No change.]

(e) If (i) the Corporation deems it necessary or advisable to borrow or otherwise obtain funds from third parties in order to meet obligations arising out of the default or

¹ See SR-OCC-2011-08 and Amendment No. 1 thereto.

suspension of a Clearing Member or any action taken by the Corporation in connection therewith pursuant to Chapter XI of the Rules or otherwise; or (ii) the Corporation sustains a loss reimbursable out of the Clearing Fund pursuant to paragraph (b) but elects to borrow or otherwise obtain funds from third parties in lieu of immediately charging such loss to the Clearing Fund; and in either case the Corporation determines that it will be unable to borrow or otherwise obtain such funds on acceptable terms on an unsecured basis; then the Corporation may take possession of [and pledge, as security for such borrowings,] cash or securities deposited by Clearing Members as contributions to the Clearing Fund and securities in which cash contributions to the Clearing Fund have been invested by the Corporation and use such assets to borrow or otherwise obtain funds through any means determined to be reasonable by the Chairman, the Management Vice Chairman, or the President of the Corporation in his discretion (including, without limitation, pledging such assets as security for loans and/or using such assets to effect repurchase, securities lending or other transactions); provided, in the case of any [borrowings] transaction effected under the circumstances specified in clause (i) above, that [the proceeds of any such borrowings] the funds obtained through such transaction will be used solely for the purposes described in clause (i). [Such borrowings, irrespective of the application of the proceeds,] The funds obtained by the Corporation pursuant to this paragraph (e), irrespective of how such funds are applied, shall not be deemed to be charges against the Clearing Fund for a period not to exceed thirty days, and, during said period, shall not affect the amount or timing of any charges otherwise required to be made against the Clearing Fund pursuant to this Section. If [such borrowings shall exceed] all or a part of any transaction effected by the Corporation pursuant to this paragraph (e) remains outstanding after thirty days, the Corporation, at the close of business of the thirtieth day (or on the first Business Day thereafter), shall consider the amount of Clearing Fund assets used to [meet such borrowings] support the Corporation's obligations under the outstanding transaction as an actual loss to the Clearing Fund and immediately allocate such loss in accordance with this Section.

(f) – end [No change.]

RULES

* * *

CHAPTER XI

SUSPENSION OF A CLEARING MEMBER

* * *

Creation of Liquidating Settlement Account

RULE 1104. (a) Upon the suspension of a Clearing Member, the Corporation shall promptly liquidate [convert to cash], in the most orderly manner practicable, including, but not limited to, a private auction, all margins deposited with the Corporation by such Clearing Member in all accounts (excluding securities held in a specific deposit or escrow deposit) and all of such Clearing Member's contributions to the Clearing Fund; provided, however, that (i) cash derived from margin deposited in respect of segregated futures accounts (including any segregated futures professional account) shall not be commingled with any other cash, and may be applied only to the obligations of such segregated futures accounts, and (ii) if the issuer of a letter of credit deposited by such Clearing Member pursuant to Rule 604(c) shall agree in writing to extend the irrevocability of its commitment thereunder in a manner satisfactory to the Corporation, the Corporation may, in lieu of demanding immediate payment of the face amount of such letter of credit, but reserving its right thereto, demand only such amounts as it may from time to time deem necessary to meet anticipated disbursements from the Liquidating Settlement Accounts provided for below. These and all other funds of the suspended Clearing Member subject to the control of the Corporation, except proceeds of segregated long positions, funds disposed of pursuant to Rules 1105 through 1107, and funds held in or payable to a segregated futures account, shall be placed by the Corporation in a special account, to be known as the Liquidating Settlement Account, in the name of the suspended Clearing Member, for the purposes hereinafter specified. Funds held in or payable to segregated futures accounts, and only such funds, shall be placed by the Corporation in a separate special account, to be known as the Segregated Liquidating Settlement Account, in the name of the suspended Clearing Member, for the purposes herein specified. Funds obtained from the issuer of a letter of credit shall be disbursed only after all other funds contained in the Liquidating Settlement Account, with the exception of funds derived from the suspended Clearing Member's contributions to the Clearing Fund, have been exhausted, or in the case of a letter of credit indicating on its face that it is being deposited to serve as margin for a segregated futures account, only after all other funds contained in the Segregated Futures Liquidating Settlement Account, have been exhausted. In the event the sum of (i) the proceeds from any restricted letter of credit held in a restricted lien account, (ii) the proceeds from the closing out of positions and securities in a restricted lien account over which

the Corporation has a restricted lien as provided in Article VI, Section 3 of the By-Laws, (iii) the proceeds from the closing out of exercised option contracts, matured futures and expired BOUNDS in such restricted lien account, and (iv) the proceeds from the liquidation of securities held as margin in such restricted lien account should exceed the amount withdrawn by the Corporation from the Liquidating Settlement Account pursuant to Rules 1105 through 1107 in respect of transactions or positions in such restricted lien account, the excess shall be remitted by the Corporation to the suspended Clearing Member or its representative for distribution to the persons entitled thereto in accordance with applicable law. In the event the sum of (i) the proceeds from any restricted letter of credit held in segregated futures accounts, (ii) any variation payments received from closing out long or short positions in futures in segregated futures accounts, and (iii) the proceeds from the closing out of matured futures and long futures options and commodity options positions in segregated futures accounts should exceed the amount withdrawn by the Corporation from the Segregated Liquidating Settlement Account pursuant to Rules 1105 through 1107 in respect of transactions or positions in all segregated futures accounts, the excess shall be remitted by the Corporation to the suspended Clearing Member or its representative for distribution to the persons entitled thereto in accordance with applicable law. Notwithstanding the foregoing provisions of this rule, margin and all other funds of a suspended Clearing Member in respect of sets of X-M accounts (other than such Clearing Member's contributions to the Clearing Fund) shall be subject to Rule 707 and the applicable Participating CCO Agreement and not to this Rule.

(b) Notwithstanding the provisions of Rule 1104(a), if the Chairman, the Management Vice Chairman, or the President shall determine in his discretion, taking into account the size and nature of a suspended Clearing Member's margin deposits and/or contributions to the Clearing Fund, the market conditions prevailing at the time, the potential market effects of liquidating transactions that might be directed by the Corporation, and such other circumstances as such officer deems relevant, that the immediate liquidation [conversion to cash] of some or all of the suspended Clearing Member's margin deposits and/or contributions to the Clearing Fund would not be in the best interests of the Corporation, other Clearing Members, or the general public, such [deposits] assets need not be immediately liquidated [converted to cash]. In such case, pending the ultimate disposition of the suspended Clearing Member's margin deposits and contributions to the Clearing Fund, the Chairman, the Management Vice Chairman or the President of the Corporation may, for purposes of satisfying such Clearing Member's obligations under the By-Laws and Rules, cause the Corporation to use such Clearing Member's margin deposits and/or contributions to the Clearing Fund to borrow or otherwise obtain funds from third parties through any means determined to be reasonable by such officer in his discretion (including, without limitation, pledging such assets as security for loans and/or using such assets to effect repurchase, securities lending or other transactions).[, provided that any] Any determination made pursuant to this paragraph shall be reported to the Board of Directors within 24 hours.

Open Positions

RULE 1106. (a) – (e) [No change.]

(f) If the Chairman, the Management Vice Chairman, or the President of the Corporation shall (i) determine that the Corporation is unable, for any reason, to close out in a prompt and orderly fashion any unsegregated long positions or short positions in options or BOUNDS, or long or short positions in futures, or to liquidate [convert to cash] any margin deposits of a suspended Clearing Member, or (ii) elect pursuant to Rule 1106(e) not to close out any such positions or pursuant to Rule 1104(b) not to liquidate [convert to cash] any such margin deposits, such officer may authorize the execution from time to time for the account of the Corporation, solely for the purpose of reducing the risk to the Corporation resulting from the continued maintenance of such positions or the continued holding of such margin deposits, of hedging transactions, including, without limitation, the purchase or sale of underlying interests or interests deemed similar thereto or option contracts or futures contracts on any such underlying or similar interests. Such officer may delegate to specified officers or agents of the Corporation the authority to determine, within such guidelines, if any, as such officer shall prescribe, the nature and timing of such hedging transactions. Any authorization of hedging transactions shall be reported to the Board of Directors within 24 hours, and any such transactions that are executed shall be reported to the Membership/Risk Committee on a daily basis. Any costs or expenses, including losses, sustained by the Corporation in connection with transactions effected for its account pursuant to this paragraph shall be charged to the Liquidating Settlement Account of the suspended Clearing Member, and any gains realized on such transactions shall be credited to such Liquidating Settlement Account; provided, however, that (i) costs, expenses, and gains allocable to the hedging of positions in a Market-Maker's account or a customers' lien account shall be charged or credited, as the case may be, to that account, and only the excess, if any, of such costs and expenses over the funds available in that account shall be charged to the Liquidating Settlement Account; (ii) costs, expenses, and gains allocable to the hedging of positions in a segregated futures account shall be charged or credited, as the case may be, to the Segregated Liquidating Settlement Account, and only the excess, if any, of such costs and expenses over the funds available in that account shall be charged to the Liquidating Settlement Account, and (iii) costs, expenses and gains allocable to the hedging of positions in an internal non-proprietary cross-margining account shall be charged or credited, as the case may be, to the Internal Non-Proprietary Cross-Margining Liquidating Settlement Account, and only the excess, if any, of such costs and expenses over the funds available in that account shall be charged to the Liquidating Settlement Account. Reasonable allocations of costs, expenses, and gains among accounts made by the Corporation for the purpose of implementing the proviso to the preceding sentence shall be binding on the Clearing Member and any persons claiming through the Clearing Member and their respective successors and assigns.

(g) [No change.]

* * *

Item 2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by the Board of Directors of OCC at a meeting held on September 27, 2011.

Questions regarding the proposed rule change should be addressed to Stephen Szarmack, Vice President and Associate General Counsel, at (312) 322-4802.

Item 3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The purpose of the proposed rule change is to amend OCC's by-laws and rules to clarify OCC's authority to use, and the manner in which OCC may use, a defaulting clearing member's margin deposits and contributions to the clearing fund and all other clearing members' clearing fund contributions² to obtain temporary liquidity for purposes of meeting liquidity needs arising from Default Obligations.

An essential element of OCC's risk management regime is sound management of liquidity risk. OCC regularly examines its liquidity risk exposure to determine the optimal amount and form of available liquidity. OCC's largest potential liquidity needs are projected to occur in the case of a clearing member's default where OCC would be obligated to settle the

² Margin deposits secure only the depositing clearing member's own obligations to OCC whereas clearing fund deposits of all clearing members may be applied by OCC not only to losses arising from the depositing clearing member's default, but also to losses resulting from defaults by other clearing members and specified other third parties such as settlement banks and other clearing organizations. See generally Article VIII, Sections 1 and 5 of OCC's by-laws and Rule 604 of OCC's rules.

defaulting clearing member's payment obligations with respect to option premiums, settlement of cash-settled option exercises, and mark-to-market payments. These are obligations that OCC must fund on time and potentially with only a few hours of advance notice – from notice of default until the payments are due.

One of the resources that OCC may use to meet its liquidity needs is its existing committed credit facility. The amount of funds available to OCC under the committed credit facility is limited not only by the overall size of the facility, but also by the amount of assets that OCC can pledge as collateral to lenders supporting the facility. OCC believes that, in addition to the authority it already has to pledge clearing fund assets to secure a loan to cover Default Obligations, it should also have the express power to pledge a suspended clearing member's margin deposits to secure loans for the purpose of meeting obligations arising out of the default and suspension of that clearing member or any action taken by OCC in connection therewith. OCC clearly has authority to pledge a suspended clearing member's clearing fund deposits for that purpose under Article VIII, Section 5(e) of the by-laws. However, it is not as clear that OCC has authority to pledge a suspended clearing member's margin deposits. Rule 1104(a) provides, among other things, that upon the suspension of a clearing member, OCC shall promptly "convert to cash," in the most orderly manner practicable, all of the clearing member's margin deposits. Although this mandate might be construed to include the authority to pledge margin assets as collateral for borrowings under the committed credit facility, the phrase "convert to cash" has generally been used in the by-laws as synonymous with "liquidate" to refer

to a final disposition of an asset. And even if OCC does have implied authority to pledge margin assets, that may not be transparent to all clearing members because it is not expressly stated in the rule. In order to eliminate any ambiguity, OCC proposes to (i) amend Rule 1104 and Rule 1106 to replace the phrases “convert to cash,” “conversion to cash” and “converted to cash” with the words “liquidate,” “liquidation” and “liquidated,” respectively; and (ii) amend Rule 1104(b) to expressly give OCC the power to pledge a suspended clearing member’s margin deposits as security for loans if designated executive officers of OCC determine that immediate liquidation of such assets for cash under then-existing circumstances would not be in the best interests of OCC, other clearing members, or the general public.

While OCC’s \$2 billion committed credit facility should normally be more than sufficient to meet OCC’s liquidity needs, it is nevertheless possible that OCC could encounter a liquidity demand that exceeds the size of that facility. Moreover, it could be difficult to maintain the size of the facility under unfavorable market conditions (*i.e.*, if the credit markets tighten significantly). In addition, future regulatory requirements for clearinghouses could impose liquidity requirements that would be difficult to meet with a committed credit facility alone. In order to be better prepared to deal with such situations, OCC believes that it is necessary to actively explore a variety of means for raising and maintaining liquidity resources, including participation in securities lending or tri-party repo markets. Therefore, OCC proposes to amend both Article VIII, Section 5(e) of the by-laws and Rule 1104(b) to clarify that OCC’s authority to use a suspended clearing member’s margin and clearing fund deposits and other clearing

members' clearing fund deposits to obtain temporary liquidity for purposes of meeting Default Obligations is not limited to pledging such assets under the committed credit facility. Rather, OCC would have express authority to use such assets to obtain liquidity through any reasonable means as determined by designated executive officers of OCC in their discretion. The addition of the language "or otherwise obtain" in Article VIII, Section 5(e) of the by-laws reflects that certain transactions by which OCC may obtain liquidity could be characterized as something other than a transaction in which funds are "borrowed." For example, in a Master Repurchase Agreement, the Agreement states that the parties' intent is for the transactions to be "sales" and "purchases," but also contains provisions if such transactions are deemed to be loans. Accordingly, the use of "or otherwise obtain" in the phrase "borrow or otherwise obtain" addresses the possibility that the transaction by which OCC obtains funds may not be deemed to be a "borrowing" and forestalls technical arguments that it would be necessary for the transaction to be a "loan" in order for OCC to borrow funds.

* * *

The proposed changes to OCC's by-laws and rules are consistent with the purposes and requirements of Section 17A of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), because they are designed to permit OCC to perform clearing services in a manner consistent with OCC's obligations to promote the prompt and accurate clearance and settlement of securities transactions and to protect investors and the public interest. They accomplish this purpose by clarifying and enhancing OCC's ability to raise liquidity to satisfy

Default Obligations. The proposed rule change is not inconsistent with any rules of OCC, including any rules proposed to be amended.

Item 4. Self-Regulatory Organization's Statement on Burden on Competition

OCC does not believe that the proposed rule change would impose any burden on competition.

Item 5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments were not, and are not intended to be, solicited with respect to the proposed rule change and none have been received.

Item 6. Extension of Time Period for Commission Action

OCC does not consent to an extension of the time period specified in Section 19(b)(2) of the Exchange Act.

Item 7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Not applicable.

Item 8. Proposed Rule Change Based on Rule of Another Self-Regulatory Organization or of the Commission

The proposed rule change is not based on a rule change of another self-regulatory organization.

Item 9. Exhibits

Exhibit 1. Completed Notice of Proposed Rule Change for publication in the Federal Register.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, The Options Clearing Corporation has caused this filing to be signed on its behalf by the undersigned hereunto duly authorized.

THE OPTIONS CLEARING CORPORATION


By: 
Stephen Szarmack
Vice President and
Associate General Counsel

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-_____ ; File No. SR-OCC-2011-15

SELF-REGULATORY ORGANIZATION

Proposed Rule Change By
The Options Clearing Corporation

Relating to Management of Liquidity Risk

Comments requested within days
after the date of this publication.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934, 15 U.S.C. 78s(b)(1), notice is hereby given that on _____, 2011, The Options Clearing Corporation ("OCC") filed with the Securities and Exchange Commission the proposed rule change as described in Items I, II and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The proposed rule change would clarify OCC's ability to obtain temporary liquidity for purposes of meeting liquidity needs arising from default obligations.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The purpose of the proposed rule change is to amend OCC's by-laws and rules to clarify OCC's authority to use, and the manner in which OCC may use, a defaulting clearing member's margin deposits and contributions to the clearing fund and all other clearing members' clearing fund contributions¹ to obtain temporary liquidity for purposes of meeting liquidity needs arising from Default Obligations.

An essential element of OCC's risk management regime is sound management of liquidity risk. OCC regularly examines its liquidity risk exposure to determine the optimal amount and form of available liquidity. OCC's largest potential liquidity needs are projected to occur in the case of a clearing member's default where OCC would be obligated to settle the defaulting clearing member's payment obligations with respect to option premiums, settlement of cash-settled option exercises, and mark-to-market payments. These are obligations that OCC

¹ Margin deposits secure only the depositing clearing member's own obligations to OCC whereas clearing fund deposits of all clearing members may be applied by OCC not only to losses arising from the depositing clearing member's default, but also to losses resulting from defaults by other clearing members and specified other third parties such as settlement banks and other clearing organizations. See generally Article VIII, Sections 1 and 5 of OCC's by-laws and Rule 604 of OCC's rules.

must fund on time and potentially with only a few hours of advance notice – from notice of default until the payments are due.

One of the resources that OCC may use to meet its liquidity needs is its existing committed credit facility. The amount of funds available to OCC under the committed credit facility is limited not only by the overall size of the facility, but also by the amount of assets that OCC can pledge as collateral to lenders supporting the facility. OCC believes that, in addition to the authority it already has to pledge clearing fund assets to secure a loan to cover Default Obligations, it should also have the express power to pledge a suspended clearing member's margin deposits to secure loans for the purpose of meeting obligations arising out of the default and suspension of that clearing member or any action taken by OCC in connection therewith. OCC clearly has authority to pledge a suspended clearing member's clearing fund deposits for that purpose under Article VIII, Section 5(e) of the by-laws. However, it is not as clear that OCC has authority to pledge a suspended clearing member's margin deposits. Rule 1104(a) provides, among other things, that upon the suspension of a clearing member, OCC shall promptly "convert to cash," in the most orderly manner practicable, all of the clearing member's margin deposits. Although this mandate might be construed to include the authority to pledge margin assets as collateral for borrowings under the committed credit facility, the phrase "convert to cash" has generally been used in the by-laws as synonymous with "liquidate" to refer to a final disposition of an asset. And even if OCC does have implied authority to pledge margin assets, that may not be transparent to all clearing members because it is not expressly stated in the rule. In order to eliminate any ambiguity, OCC proposes to (i) amend Rule 1104 and Rule

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While OCC’s \$2 billion committed credit facility should normally be more than sufficient to meet OCC’s liquidity needs, it is nevertheless possible that OCC could encounter a liquidity demand that exceeds the size of that facility. Moreover, it could be difficult to maintain the size of the facility under unfavorable market conditions (*i.e.*, if the credit markets tighten significantly). In addition, future regulatory requirements for clearinghouses could impose liquidity requirements that would be difficult to meet with a committed credit facility alone. In order to be better prepared to deal with such situations, OCC believes that it is necessary to actively explore a variety of means for raising and maintaining liquidity resources, including participation in securities lending or tri-party repo markets. Therefore, OCC proposes to amend both Article VIII, Section 5(e) of the by-laws and Rule 1104(b) to clarify that OCC’s authority to use a suspended clearing member’s margin and clearing fund deposits and other clearing members’ clearing fund deposits to obtain temporary liquidity for purposes of meeting Default Obligations is not limited to pledging such assets under the committed credit facility. Rather, OCC would have express authority to use such assets to obtain liquidity through any reasonable means as determined by designated executive officers of OCC in their discretion. The addition

of the language “or otherwise obtain” in Article VIII, Section 5(e) of the by-laws reflects that certain transactions by which OCC may obtain liquidity could be characterized as something other than a transaction in which funds are “borrowed.” For example, in a Master Repurchase Agreement, the Agreement states that the parties’ intent is for the transactions to be “sales” and “purchases,” but also contains provisions if such transactions are deemed to be loans. Accordingly, the use of “or otherwise obtain” in the phrase “borrow or otherwise obtain” addresses the possibility that the transaction by which OCC obtains funds may not be deemed to be a “borrowing” and forestalls technical arguments that it would be necessary for the transaction to be a “loan” in order for OCC to borrow funds.

* * *

The proposed changes to OCC’s by-laws and rules are consistent with the purposes and requirements of Section 17A of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), because they are designed to permit OCC to perform clearing services in a manner consistent with OCC’s obligations to promote the prompt and accurate clearance and settlement of securities transactions and to protect investors and the public interest. They accomplish this purpose by clarifying and enhancing OCC’s ability to raise liquidity to satisfy Default Obligations. The proposed rule change is not inconsistent with any rules of OCC, including any rules proposed to be amended.

B. Self-Regulatory Organization's Statement on Burden on Competition

OCC does not believe that the proposed rule change would impose any burden on competition.

C. **Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others**

Written comments were not and are not intended to be solicited with respect to the proposed rule change and none have been received.

III. **Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding, or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve the proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. **Solicitation of Comments**

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-

OCC-2011-15 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-OCC-2011-15. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549-1090. Copies of such filing will also be available for inspection and copying at the principal office of the above-mentioned self-regulatory organization. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-OCC-2011-15 and should be submitted on or before [insert date 21 days from publication in the Federal Register]

For the Commission by the Division of Market Regulation, pursuant to delegated
authority.

Secretary

Dated: _____